

HIGHLAND COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS,  
BASIC FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION  
AND SCHEDULE OF FINDINGS

JUNE 30, 2011

HIGHLAND COMMUNITY SCHOOL DISTRICT

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# HIGHLAND COMMUNITY SCHOOL DISTRICT

## Officials

June 30, 2011

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mike Roberts	Board President	2013
Ed Ossman	Board Member	2011
Bruce Temple	Board Member	2011
Robert Schneider, Jr.	Board Member	2011
Cindy Michel	Board Member	2011
Becky Hanson	Board Member	2013
Kevin Engel	Board Member	2013

## School Officials

Chris Armstrong	Superintendent	2011
Bev Colbert	District Secretary/Treasurer	Indefinite
C. Joseph Holland	Attorney	Indefinite

# KAY L. CHAPMAN, CPA PC

119 west Mississippi Drive Suite 3  
Muscatine, Iowa 52761  
563-264-1385

## Independent Auditor's Report

To the Board of Education  
Highland Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Highland Community School District, Riverside, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Highland Community School District as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated February 29, 2012 on my consideration of Highland Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 14 and 48 through 50 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Highland Community School District's basic financial statements. Other supplementary information included in Schedules 1 through 7 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. In my opinion, the information set forth in the supplementary information for each of the eight years in the period ended June 30, 2011, appearing in Schedule 7, is fairly stated, in all material respects in relation to the basic financial statements from which it has been derived.

*Kay L. Chapman, CPA PC*

Kay L. Chapman, CPA PC  
February 29, 2012

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Highland Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2011 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$6,379,150 in fiscal 2010 to \$6,857,010 in fiscal 2011, while General Fund expenditures increased from \$6,738,525 in fiscal 2010 to \$6,878,694 in fiscal 2011. The District's General Fund balance decreased from \$(567,450) in fiscal 2010 to \$(600,534) in fiscal 2011, a 6% decrease.
- The increase in the General Fund revenues was attributable to the full funding of state aid for the 2011 fiscal year. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits of the certified staff.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Highland Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Highland Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the non-major governmental and enterprise funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
**Highland Community School District Annual Financial Report**

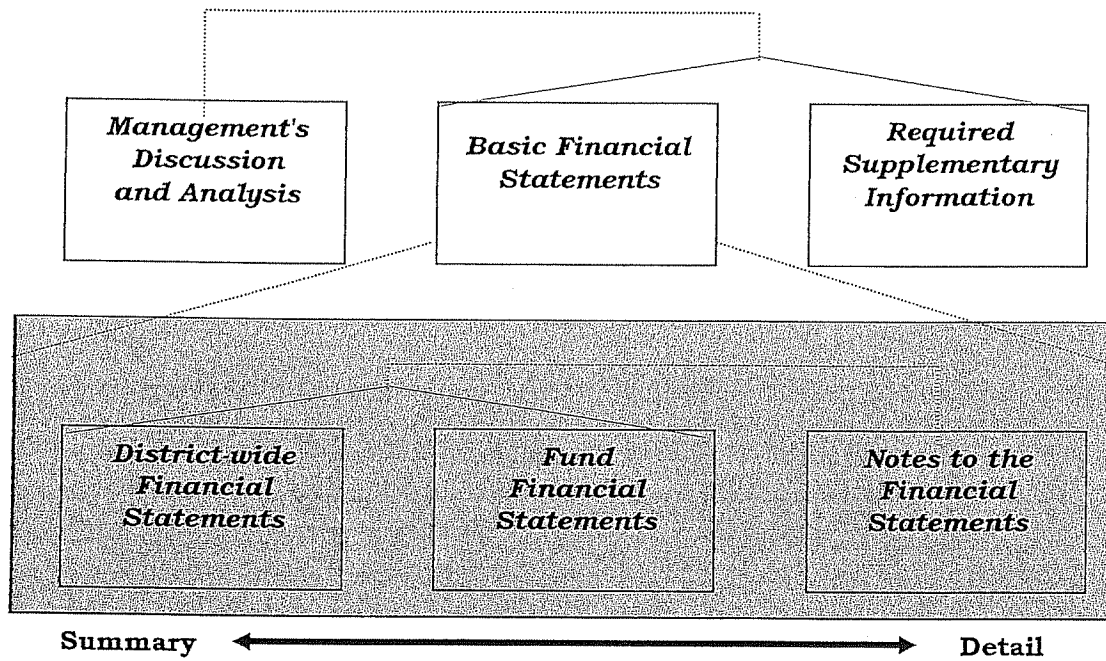


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire District	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and preschool program
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving

or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition and preschool programs are included here.

#### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Funds.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and Preschool Fund.

The required financial statements for proprietary funds include a statement of net assets, statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2011 compared to June 30, 2010.

Figure A-3

	Condensed Statement of Net Assets						
	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2010-</u> <u>2011</u>
Current and other assets	\$ 4,670,810	\$ 4,809,216	\$ 37,090	\$ 15,360	\$ 4,707,900	\$ 4,824,576	-2.42%
Capital assets	<u>8,602,413</u>	<u>8,128,534</u>	<u>16,797</u>	<u>19,043</u>	<u>8,619,210</u>	<u>8,147,577</u>	5.79%
Total assets	<u>13,273,223</u>	<u>12,937,750</u>	<u>53,887</u>	<u>34,403</u>	<u>13,327,110</u>	<u>12,972,153</u>	2.74%
Long-term liabilities	5,666,838	5,932,393	-	-	5,666,838	5,932,393	-4.48%
Other liabilities	<u>3,996,621</u>	<u>3,853,287</u>	<u>25,198</u>	<u>38,061</u>	<u>4,021,819</u>	<u>3,891,348</u>	3.35%
Total liabilities	<u>9,663,459</u>	<u>9,785,680</u>	<u>25,198</u>	<u>38,061</u>	<u>9,688,657</u>	<u>9,823,741</u>	-1.38%
Net assets							
Invested in capital assets, net of related debt	3,537,413	2,648,534	16,796	19,043	3,554,209	2,667,577	33.24%
Restricted	1,071,858	1,460,306	-	-	1,071,858	1,460,306	-26.60%
Unrestricted	<u>(999,507)</u>	<u>(956,770)</u>	<u>11,893</u>	<u>(22,701)</u>	<u>(987,614)</u>	<u>(979,471)</u>	-0.83%
Total net assets	<u>\$ 3,609,764</u>	<u>\$ 3,152,070</u>	<u>\$ 28,689</u>	<u>\$ (3,658)</u>	<u>\$ 3,638,453</u>	<u>\$ 3,148,412</u>	15.56%

The District's combined net assets increased by approximately 16%, or \$490,041, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, intangibles, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$388,448, or approximately 27% from the prior year. The decrease was primarily a result of the shift of restricted funds designated for the construction project into capital assets due to the project being completed.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$8,143, or approximately 1%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-4

## Change in Net Assets

	Governmental Activities		Business Type Activities		Total District		Total Change 2010- 2011
	2011	2010	2011	2010	2011	2010	
Revenues							
Program revenues							
Charges for service	\$ 762,980	\$ 1,094,572	\$ 205,733	\$ 201,603	\$ 968,713	\$ 1,296,175	-25.26%
Operating grants and contributions	1,212,073	1,232,098	135,276	138,030	1,347,349	1,370,128	-1.66%
General revenues							
Property tax	2,959,839	2,839,688	-	-	2,959,839	2,839,688	4.23%
Statewide sales, services and use tax	443,326	393,593	-	-	443,326	393,593	12.64%
Unrestricted state grants	2,944,902	2,430,539	-	-	2,944,902	2,430,539	21.16%
Contributions and donations	114,655	-	-	-	114,655	-	100.00%
Unrestricted investment earnings	1,807	11,479	11	38	1,818	11,517	-84.21%
Other	34,032	24,306	-	-	34,032	24,306	40.01%
Total revenues	<u>8,473,614</u>	<u>8,026,275</u>	<u>341,020</u>	<u>339,671</u>	<u>8,814,634</u>	<u>8,365,946</u>	<u>5.36%</u>
Program expenses							
Governmental activities							
Instruction	4,705,073	5,042,228	-	-	4,705,073	5,042,228	-6.69%
Support services	2,473,754	2,287,329	-	-	2,473,754	2,287,329	8.15%
Non-instructional programs	-	-	320,173	336,172	320,173	336,172	-4.76%
Other expenses	<u>825,593</u>	<u>798,589</u>	<u>-</u>	<u>-</u>	<u>825,593</u>	<u>798,589</u>	<u>3.38%</u>
Total expenses	<u>8,004,420</u>	<u>8,128,146</u>	<u>320,173</u>	<u>336,172</u>	<u>8,324,593</u>	<u>8,464,318</u>	<u>-1.65%</u>
Change in net assets	469,194	(101,871)	20,847	3,499	490,041	(98,372)	598.15%
Transfers	(11,500)	-	11,500	-	-	-	0.00%
Net assets, beginning of year	<u>3,152,070</u>	<u>3,253,941</u>	<u>(3,658)</u>	<u>(7,157)</u>	<u>3,148,412</u>	<u>3,246,784</u>	<u>-3.03%</u>
Net assets, end of year	<u>\$ 3,609,764</u>	<u>\$ 3,152,070</u>	<u>\$ 28,689</u>	<u>(3,658)</u>	<u>\$ 3,638,453</u>	<u>\$ 3,148,412</u>	<u>15.56%</u>

In fiscal 2011, property tax and unrestricted state grants account for approximately 70% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for approximately 99% of the revenue from business type activities.

The District's total revenues were \$8,814,634 of which \$8,473,614 was for governmental activities and \$341,020 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 5% increase in revenues and a 2% decrease in expenses. The increase in revenues was due to increased state aid, donations & contributions and grants from the Washington County Riverboat Foundation. The decrease in expenses related to savings in instructional costs due to the early retirement program that was offered during the 2009-10 school year for fiscal year 2011, as well as decreases in non-instructional programs.

## Governmental Activities

Revenues for governmental activities were \$8,473,614 and expenses were \$8,004,420 for the year ended June 30, 2011. Revenues increased due to fully funding the state aid formula and expenses decreased due to early retirement savings and completion of the building project.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses, for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-5

	Total and Net Cost of Governmental Activities					
	Total Cost of Services			Net Cost of Services		
	2011	2010	Change 2010- 2011	2011	2010	Change 2010- 2011
Instruction	\$ 4,705,073	\$ 5,042,228	-6.7%	\$ 3,014,562	\$ 2,976,204	1.3%
Support services	2,473,754	2,287,329	8.2%	2,467,219	2,286,190	7.9%
Other expenses	<u>825,593</u>	<u>798,589</u>	3.4%	<u>547,586</u>	<u>539,082</u>	1.6%
Total expenses	<u>\$ 8,004,420</u>	<u>\$ 8,128,146</u>	-1.5%	<u>\$ 6,029,367</u>	<u>\$ 5,801,476</u>	3.9%

For the year ended June 30, 2011:

- The cost financed by users of the District's programs was \$762,980.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,212,073.
- The net cost of governmental activities was financed with \$3,403,165 in property and other taxes and \$2,944,902 in unrestricted state grants.

## Business Type Activities

Revenues for business type activities during the year ended June 30, 2011 were \$341,020 representing an increase of less than 1% over the prior year while expenses totaled \$320,173, a 5% decrease from the prior year. The District's business type activities include the School Nutrition Fund and Preschool Fund. Revenues for these activities were comprised of charges for service, federal and state reimbursements and investment income. The decrease in expenses was due to the greater utilization of the federal commodities program and more of the program by the food service director.

## INDIVIDUAL FUND ANALYSIS

As previously noted, Highland Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$377,288, well below last year's ending fund balances of \$787,376. The primary reason for the decrease was due to the payment for the construction project at the middle school/high school buildings.

## **Governmental Fund Highlights**

- The General Fund balance decreased from \$(567,450) to \$(600,534). The District maintained a relatively stable General Fund balance due to full funding of state aid payments and careful monitoring of the General Fund expenditures.
- The Capital Fund - Statewide Sales, Services and Use Tax Fund balance decreased from \$1,215,038 to \$852,703 due to the payment for the construction project at the middle school/high school buildings.

## **Proprietary Fund Highlights**

Enterprise Fund net assets increased from \$(3,658) at June 30, 2010 to \$28,689 at June 30, 2011, representing an increase of approximately 884%. This increase was due to greater participation in the school hot lunch program and more efficient use of government commodities and careful monitoring of food purchases.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the District amended its budget one time to reflect additional expenditures associated with support services, non-instructional programs and other expenditures.

The District's revenues were \$84,192 less than budgeted revenues, a variance of less than 1%.

Total expenditures were \$509,853 less than budgeted, due to savings in instruction due to lower salary and benefits costs and balances in the Capital Projects funds.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2011, the District had invested \$8,619,210, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of approximately 6% over last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$481,516.

The original cost of the District's capital assets was \$12,796,581. Governmental funds account for \$12,697,648, with the remainder of \$98,933 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category, which increased from \$2,710,822 in 2010 to nothing in 2011. This was due to the construction project being finished during fiscal year 2011.

Figure A-6

Capital Assets, Net of Depreciation							
	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	2011	2010	2011	2010	2011	2010	2010-2011
Land	\$ 226,612	\$ 76,612	\$ -	\$ -	\$ 226,612	\$ 76,612	195.79%
Construction in progress	-	2,710,822	-	-	-	2,710,822	-100.00%
Buildings and improvements	7,390,614	4,466,862	-	-	7,390,614	4,466,862	65.45%
Improvements, other than buildings	420,992	331,006	-	-	420,992	331,006	27.19%
Furniture and equipment	564,195	543,232	16,797	19,043	580,992	562,275	3.33%
Totals	<u>\$8,602,413</u>	<u>\$8,128,534</u>	<u>\$16,797</u>	<u>\$19,043</u>	<u>\$8,619,210</u>	<u>\$8,147,577</u>	5.79%

### Long-Term Debt

At June 30, 2011, the District had \$5,666,838 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 4% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

The District continues to carry a general obligation bond rating of A assigned by national rating agencies to the District's debt. The Constitution of the State of Iowa limits the amount of general obligation debt districts can issue to 5 percent of the assessed value of all taxable property within the District. The District's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$11.4 million.

Figure A-7

Outstanding Long-term Obligations			
	Total	Total	Change
	District	District	
	2011	2010	2010-2011
General obligation bonds	\$ 1,450,000	\$ 1,615,000	-10.22%
Revenue bonds	3,460,000	3,560,000	-2.81%
Capital loan notes	155,000	305,000	-49.18%
Compensated absences	65,182	60,220	8.24%
Termination benefits	126,663	187,496	-32.44%
Net OPEB liability	409,993	204,677	100.31%
Total	<u>\$5,666,838</u>	<u>\$5,932,393</u>	-4.48%

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- In August 2006 a vote was held to build a new casino in Riverside, Iowa. The property will be annexed into the city and even though the area will be in a tax increment financing district for a maximum of eight years to pay for water and sewer infrastructure it will affect the tax base in the immediate future for the debt service and physical plant and equipment levies. A private foundation has been formed to allocate funds (\$2.6 to \$3.2 million) annually to public entities such as school districts, non-profit organizations and for economic development. This will have a long-term affect on the district due to an increased tax base, foundation funds, one-cent sales tax, increased employment and therefore an increase in people moving into the district.
- PPEL and SILO funds are now used for major purchases that were previously paid for out of the General Fund. We will no longer be using the General Fund for major purchases that can now be purchased from the PPEL and SILO Funds. There was also a declaratory ruling that allowed schools to shift certain technology purchases and service agreements to the PPEL Fund. During the fiscal 2011 school year a total of \$68,022 was shifted from the General Fund to the PPEL Fund. These expenditures we be expended from the PPEL Fund in the future.
- The State of Iowa passed a one-cent penny sales tax, effective July 1, 2010, to be used for school infrastructure, which replaced the SILO taxes voted on by the 99 Iowa counties. The Highland Community School District passed a new revenue purpose statement on September 9, 2008. This gives Highland the power to borrow against these funds through 2029. We sold \$3,660,000 of revenue bonds on June 1, 2010 to finance a building project to do necessary improvements and additions to the middle school/high school building without using property taxes and still have funds remaining to do necessary building repairs/maintenance and the purchase of transportation equipment.
- The Board has earmarked \$50,000 per year for computer hardware from the SILO fund. Also, we have applied for and received grants from the Washington County Riverboat Foundation for major technology purchases. We will continue to use this new avenue of funding for major equipment acquisitions and additions to the Highland Community School District, which frees up funds in the General Fund for other expenses.
- The Board purchased approximately 16 acres of farmland adjacent to the secondary building site on December 30, 2010. This purchase will allow the district to expand its athletic facilities, parking areas, bus barn or whatever other buildings it may deem necessary in the future.
- To improve the financial position of the school lunch program we have contracted with a regional coop purchasing program to replace the state program, which will give us more control over items purchased and therefore saving us money. We will continue to closely monitor revenues and expenditures. We also increased the prices of breakfast and lunch for the 2010-11 school year and have increased our usage of the federal commodities program.
- We have increased the tuition and child care rates for our three year-old preschool program for the 2011-12 school year to improve the balance in that program. We will continue to monitor this program very closely to see if it can remain viable.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Bev Colbert, Board Secretary/Treasurer, Highland Community School District, 1715 Vine Avenue, Riverside, Iowa 52327.

## Basic Financial Statements

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2011

Exhibit A

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents			
Cash with fiscal agent	\$ 305,947	\$ -	\$ 305,947
Other	789,599	29,155	818,754
Receivables			
Property tax			
Delinquent	32,499	-	32,499
Succeeding year	3,042,923	-	3,042,923
Income surtax	254,050	-	254,050
Accounts receivable	2,143	-	2,143
Due from other governments	243,649	-	243,649
Inventories	-	7,935	7,935
Non-depreciable capital assets	226,612	-	226,612
Capital assets, net of accumulated depreciation	8,375,801	16,797	8,392,598
Total assets	<u>13,273,223</u>	<u>53,887</u>	<u>13,327,110</u>
<b>Liabilities</b>			
Accounts payable	181,141	519	181,660
Salaries and benefits payable	677,029	20,477	697,506
Accrued interest payable	95,528	-	95,528
Deferred revenue			
Succeeding year property tax	3,042,923	-	3,042,923
Other	-	4,202	4,202
Long-term liabilities			
Portion due within one year			
General obligation bonds payable	100,000	-	100,000
Revenue bonds payable	100,000	-	100,000
Capital loan notes payable	155,000	-	155,000
Termination benefits	57,120	-	57,120
Portion due after one year			
General obligation bonds payable	1,350,000	-	1,350,000
Revenue bonds payable	3,360,000	-	3,360,000
Compensated absences	65,182	-	65,182
Termination benefits	69,543	-	69,543
Net OPEB liability	409,993	-	409,993
Total liabilities	<u>9,663,459</u>	<u>25,198</u>	<u>9,688,657</u>

See notes to financial statements.

# HIGHLAND COMMUNITY SCHOOL DISTRICT

Exhibit A

## Statement of Net Assets

June 30, 2011

	Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	\$ 3,537,413	\$ 16,796	\$ 3,554,209
Restricted for			
Categorical funding	137,600	-	137,600
Physical plant and equipment	1,104	-	1,104
Student activities	80,451	-	80,451
School infrastructure	852,703	-	852,703
Unrestricted	(999,507)	11,893	(987,614)
Total net assets	<u>\$ 3,609,764</u>	<u>\$ 28,689</u>	<u>\$ 3,638,453</u>

See notes to financial statements.

# HIGHLAND COMMUNITY SCHOOL DISTRICT

## Statement of Activities

For the Year Ended June 30, 2011

Exhibit B

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities
Governmental activities						
Instruction						
Regular instruction	\$ 2,495,487	\$ 745,893	\$ 869,905	\$ -	\$ (879,689)	\$ (879,689)
Special instruction	1,196,308	-	48,467	-	(1,147,841)	(1,147,841)
Other instruction	1,013,278	17,087	9,159	-	(987,032)	(987,032)
	4,705,073	762,980	927,531	-	(3,014,562)	(3,014,562)
Support services						
Student	138,406	-	-	-	(138,406)	(138,406)
Instructional staff	359,097	-	-	-	(359,097)	(359,097)
Administration	933,945	-	-	-	(933,945)	(933,945)
Operation and maintenance of plant	643,794	-	-	-	(643,794)	(643,794)
Transportation	398,512	-	1,959	-	(396,553)	(396,553)
Central support	-	-	4,576	-	4,576	4,576
	2,473,754	-	6,535	-	(2,467,219)	(2,467,219)
Other expenses						
Facilities acquisition	42,613	-	-	-	(42,613)	(42,613)
Long-term debt interest	254,117	-	-	-	(254,117)	(254,117)
AEA flowthrough	278,007	-	278,007	-	-	-
Loss on disposal of capital assets	5,155	-	-	-	(5,155)	(5,155)
Depreciation (unallocated) *	245,701	-	-	-	(245,701)	(245,701)
	825,593	-	-	-	(547,586)	(547,586)
	8,004,420	762,980	278,007	-	(6,029,367)	(6,029,367)
			1,212,073	-		
Total governmental activities						

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2011

Exhibit B

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
<b><u>Functions/Programs (continued)</u></b>					
Business type activities					
Non-instructional programs					
Food service operations	\$ 288,715	\$ 180,879	\$ 135,276	\$ -	\$ 27,440
Preschool operations	31,458	24,854	-	-	(6,604)
Total business type activities	320,173	205,733	135,276	-	20,836
Total	\$ 8,324,593	\$ 968,713	\$ 1,347,349	\$ -	(6,008,531)
<b><u>General Revenues</u></b>					
Property tax levied for					
General purposes					
Debt service					
Capital outlay					
Statewide sales, services and use tax					
Unrestricted state grants					
Contributions and donations					
Unrestricted investment earnings					
Other					
Transfers					
Total general revenues and transfers					
Change in net assets					
Net assets, beginning of year					
Net assets, end of year					

\* This amount excludes the depreciation included in the direct expenses of the various programs.  
See notes to financial statements.

# HIGHLAND COMMUNITY SCHOOL DISTRICT

Exhibit C

## Balance Sheet Governmental Funds June 30, 2011

		Capital Projects		
		Statewide	Nonmajor	
		Sales, Services	Governmental	
	General	and Use Tax	Funds	Total
<b>Assets</b>				
Cash and pooled investments				
Cash with fiscal agent	\$ -	\$ 305,947	\$ -	\$ 305,947
Other	184,760	465,666	139,173	789,599
Receivables				
Property tax				
Delinquent	24,564	-	7,935	32,499
Succeeding year	2,280,986	-	761,937	3,042,923
Accounts receivable	2,143	-	-	2,143
Income surtax	254,050	-	-	254,050
Due from other governments	152,764	90,885	-	243,649
Total assets	<u>\$2,899,267</u>	<u>\$ 862,498</u>	<u>\$ 909,045</u>	<u>\$4,670,810</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 149,357	\$ 9,795	\$ 21,989	\$ 181,141
Salaries and benefits payable	677,029	-	-	677,029
Deferred revenue				
Succeeding year property tax	2,280,986	-	761,937	3,042,923
Income surtax	254,050	-	-	254,050
Other	138,379	-	-	138,379
Total liabilities	<u>3,499,801</u>	<u>9,795</u>	<u>783,926</u>	<u>4,293,522</u>
<b>Fund balances</b>				
Restricted for				
Categorical funding	137,600	-	-	137,600
School infrastructure	-	852,703	-	852,703
Student activities	-	-	80,451	80,451
Management levy purposes	-	-	23,239	23,239
Physical plant and equipment	-	-	1,104	1,104
Debt service	-	-	20,325	20,325
Unassigned	(738,134)	-	-	(738,134)
Total fund balances	<u>(600,534)</u>	<u>852,703</u>	<u>125,119</u>	<u>377,288</u>
Total liabilities and fund balances	<u>\$2,899,267</u>	<u>\$ 862,498</u>	<u>\$ 909,045</u>	<u>\$4,670,810</u>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets  
June 30, 2011

Exhibit D

<b>Total fund balances of governmental funds</b>	<b>\$ 377,288</b>
<b>Amounts reported for governmental activities in the Statement of Net Assets are different because:</b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	8,602,413
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	392,429
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(95,528)
Long-term liabilities, including bonds and notes payable, compensated absences, termination benefits and other postemployment benefits payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(5,666,838)</u>
<b>Net assets of governmental activities</b>	<b><u><u>\$3,609,764</u></u></b>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2011

Exhibit E

		Capital Projects		
		Statewide	Nonmajor	
Revenues	General	Sales, Services and Use Tax	Governmental	Total
Local sources			Funds	
Local tax	\$2,179,796	\$ 443,325	\$ 790,216	\$3,413,337
Tuition	590,209	-	-	590,209
Other	64,902	61,678	196,686	323,266
State sources	3,818,681	-	323	3,819,004
Federal sources	203,422	-	-	203,422
Total revenues	<u>6,857,010</u>	<u>505,003</u>	<u>987,225</u>	<u>8,349,238</u>
Expenditures				
Current				
Instruction				
Regular	2,635,176	-	30,000	2,665,176
Special	1,149,865	-	3,690	1,153,555
Other	829,725	-	139,377	969,102
	<u>4,614,766</u>	<u>-</u>	<u>173,067</u>	<u>4,787,833</u>
Support services				
Student	132,164	-	-	132,164
Instructional staff	220,496	49,950	49,967	320,413
Administration	752,466	684	163,041	916,191
Operation and maintenance of plant	581,074	-	53,562	634,636
Transportation	299,721	104,159	13,457	417,337
	<u>1,985,921</u>	<u>154,793</u>	<u>280,027</u>	<u>2,420,741</u>
Other expenditures				
Facilities acquisition	-	436,597	151,659	588,256
Long-term debt				
Principal	-	-	415,000	415,000
Interest and fiscal charges	-	-	258,089	258,089
AEA flowthrough	278,007	-	-	278,007
	<u>278,007</u>	<u>436,597</u>	<u>824,748</u>	<u>1,539,352</u>
Total expenditures	<u>6,878,694</u>	<u>591,390</u>	<u>1,277,842</u>	<u>8,747,926</u>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2011

Exhibit E

	General	Capital Projects Statewide Sales, Services and Use Tax	Nonmajor Governmental Funds	Total
Deficiency of revenues under expenditures	\$ (21,684)	\$ (86,387)	\$ (290,617)	\$ (398,688)
Other financing sources (uses)				
Sale of equipment and materials	100	-	-	100
Interfund operating transfers in	-	-	440,663	440,663
Interfund operating transfers (out)	(11,500)	(275,948)	(164,715)	(452,163)
Total other financing sources (uses)	(11,400)	(275,948)	275,948	(11,400)
Net change in fund balances	(33,084)	(362,335)	(14,669)	(410,088)
Fund balance, beginning of year, as restated	(567,450)	1,215,038	139,788	787,376
Fund balance, end of year	<u>\$ (600,534)</u>	<u>\$ 852,703</u>	<u>\$ 125,119</u>	<u>\$ 377,288</u>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds  
to the Statement of Activities  
For the Year Ended June 30, 2011

Exhibit F

**Net change in fund balances - total governmental funds** **\$(410,088)**

**Amounts reported for governmental activities in the Statement of Activities  
are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures and depreciation expense are as follows:

Expenditures for capital assets	\$958,404	
Loss on disposal of capital assets	(5,255)	
Depreciation expense	<u>(479,270)</u>	473,879

Certain revenues not collected for several months after year-end are not considered available revenue and are deferred in the governmental funds.	124,376
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Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	415,000
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

Termination benefits	\$ 60,833	
Compensated absences	(4,962)	
Other postemployment benefits	<u>(205,316)</u>	(149,445)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the governmental funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	<u>3,972</u>
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<b>Change in net assets of governmental activities</b>	<b><u>\$ 457,694</u></b>
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HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
Proprietary Funds  
June 30, 2011

Exhibit G

	Nonmajor <u>Enterprise</u>
<b>Assets</b>	
Cash and cash equivalents	
Inventories	\$ 29,155
Capital assets, net of accumulated depreciation	7,935
Total assets	<u>16,797</u> <u>53,887</u>
<b>Liabilities</b>	
Accounts payable	
Salaries and benefits payable	519
Deferred revenue	20,477
Total liabilities	<u>4,202</u> <u>25,198</u>
<b>Net Assets</b>	
Invested in capital assets	
Unrestricted	16,797
Total net assets	<u>11,892</u> <u>\$ 28,689</u>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2011

Exhibit H

	<u>Nonmajor Enterprise</u>
Operating revenue	
Local sources	
Charges for service	<u>\$205,733</u>
Operating expenses	
Support services	
Administration	
Salaries	8,361
Benefits	1,206
Purchased services	<u>125</u>
	9,692
Operation and maintenance of plant	
Purchased services	<u>2,190</u>
Total support services	<u>11,882</u>
Non-instructional programs	
Food service operations	276,833
Preschool operations	<u>31,458</u>
Total non-instructional programs	<u>308,291</u>
Total operating expenses	<u>320,173</u>
Operating loss	<u>(114,440)</u>
Non-operating revenue	
Interest income	11
State sources	2,991
Federal sources	<u>132,285</u>
Total non-operating revenue	<u>135,287</u>
Net income before transfers	20,847
Transfers in	<u>11,500</u>
Net income	32,347
Net assets, beginning of year	<u>(3,658)</u>
Net assets, end of year	<u>\$ 28,689</u>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2011

Exhibit I

Nonmajor  
Enterprise

Cash flows from operating activities	
Cash received from sale of services	\$ 206,239
Cash payments to employees for services	(168,908)
Cash payments to suppliers for goods and services	(124,862)
Net cash used in operating activities	<u>(87,531)</u>
Cash flows from non-capital financing activities	
State grants received	2,991
Federal grants received	100,863
Net cash provided by non-capital financing activities	<u>103,854</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities	
Interest on investments	11
Net increase in cash and cash equivalents	16,334
Cash and cash equivalents, beginning of year	12,821
Cash and cash equivalents, end of year	<u><u>\$ 29,155</u></u>

**Reconciliation of operating loss to net cash  
used in operating activities**

Operating loss	\$(114,440)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	2,246
Commodities used	31,885
(Increase) in inventory	(5,859)
Increase in deferred revenue	506
(Decrease) in accounts payable	(143)
(Decrease) in accrued salaries and benefits	(1,726)
Net cash used in operating activities	<u><u>\$ (87,531)</u></u>

**Non-cash investing, capital and financing activities**

During the year ended June 30, 2011 the District received \$31,885 of federal commodities.

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2011

**Note 1. Summary of Significant Accounting Policies**

The Highland Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The District also operates a preschool for preschool aged children in the communities served. The geographic area served includes the Cities of Ainsworth and Riverside, Iowa, and the predominant agricultural territory in Louisa, Johnson and Washington Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Highland Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. The Highland Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the County Assessor's Conference Board.

**B. Basis of Presentation**

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds. The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Projects - Statewide Sales, Services and Use Tax Fund is used to account for the collection of the 1% statewide sales and service tax to be expended for school infrastructure purposes.

The District reports no major proprietary funds. However, the District reports two nonmajor enterprise funds. The School Nutrition Fund, which is used to account for the food service operations of the District and the Preschool/Daycare Fund, which is used to account for the preschool and daycare operations of the District.

### C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, termination benefits and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

The proprietary funds of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value, except for the investment in the Iowa Schools Joint Investment Trust, which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

The Iowa Schools Joint Investment Trust is a common law trust established under Iowa law and is administered by an appointed investment management company. The fair value of the position in the trust is the same as the value of the shares.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2010.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 1,500
Buildings	\$ 1,500
Improvements other than buildings	\$ 1,500
Intangibles	\$25,000
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$ 1,500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20 years
Intangibles	5-10 years
Buses	7 years
Other on-road vehicles	4 years
Furniture and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Compensated Absences - Certain District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2011. The compensated absences liability attributable to the governmental activities would be paid primarily by the General Fund.

Termination Benefits - District employees meeting certain requirements are eligible for early retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2011. The early retirement liability attributable to the governmental activities would be paid primarily by the General and Management Funds. This liability has been computed based on amounts established in the District's adopted board policy regarding early retirement benefits.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent federal grant proceeds as well as property tax and income surtax receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Fund Balance - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation, reduced by any outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District first applies restricted resources.

Net assets restricted through enabling legislation include \$1,104 for physical plant and equipment, \$80,451 for student activities and \$852,703 for school infrastructure.

#### E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

#### F. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

## Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2011, the District had investments in the Iowa Schools Joint Investment Trust Diversified Portfolio which are valued at an amortized cost of \$547,146 pursuant to Rule 2a-7 under the Investment Company Act of 1940. ISJIT is registered with and regulated by the Securities and Exchange Commission.

Credit risk. The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Service.

## Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Nonmajor Enterprise		
School nutrition	General	\$ 11,500
Nonmajor Governmental	Nonmajor Capital Projects	
Debt service	Physical plant and equipment levy	164,715
Nonmajor Governmental	Capital Projects	
Debt service	Statewide sales, services and use tax	275,948
Total		<u>\$ 452,163</u>

These transfers move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. The transfers from the Physical Plant and Equipment Levy Fund and the Statewide Sales, Services and Use Tax Fund to the Debt Service Fund are to make principal and interest payments on long-term debt.

#### Note 4. Iowa Schools Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. NA is the trustee for the program.

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. The District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the Series 2010-11A warrants is 1.2% plus the one-month LIBOR rate, adjusted daily. The interest rate on the Series 2010-11B warrants is a variable rate, calculated daily based upon the LIBOR rate plus 120 basis points. A summary of the District's ISCAP activity for the year ended June 30, 2011 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Balance, Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance, End of Year</u>
2010-11A	6/30/10	6/23/11	\$ -	\$ 1,082,500	\$ 1,082,500	\$ -
2010-11B	1/26/11	1/25/12	-	407,000	407,000	-
Total			<u>\$ -</u>	<u>\$ 1,489,500</u>	<u>\$ 1,489,500</u>	<u>\$ -</u>

During the year ended June 30, 2011, the District paid \$4,703 of interest on the ISCAP warrants.

#### Note 5. Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

<u>Governmental activities</u>	<u>Balance, Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, End of Year</u>
Capital assets not being depreciated:				
Land	\$ 76,612	\$ 150,000	\$ -	\$ 226,612
Construction in progress	<u>2,710,822</u>	<u>-</u>	<u>(2,710,822)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>2,787,434</u>	<u>150,000</u>	<u>(2,710,822)</u>	<u>226,612</u>
Capital assets being depreciated:				
Buildings and improvements	6,437,789	3,117,275	-	9,555,064
Improvements other than buildings	659,017	125,410	(2,400)	782,027
Furniture and equipment	<u>1,909,302</u>	<u>276,541</u>	<u>(51,898)</u>	<u>2,133,945</u>
Total capital assets being depreciated	<u>9,006,108</u>	<u>3,519,226</u>	<u>(54,298)</u>	<u>12,471,036</u>

Less accumulated depreciation for:				
Buildings and improvements	1,970,927	193,523	-	2,164,450
Improvements other than buildings	328,011	34,824	(1,800)	361,035
Furniture and equipment	<u>1,366,070</u>	<u>250,923</u>	<u>(47,243)</u>	<u>1,569,750</u>
Total accumulated depreciation	<u>3,665,008</u>	<u>479,270</u>	<u>(49,043)</u>	<u>4,095,235</u>
Total capital assets being depreciated, net	<u>5,341,100</u>	<u>3,039,956</u>	<u>(5,255)</u>	<u>8,375,801</u>
Governmental activities capital assets, net	<u>\$ 8,128,534</u>	<u>\$ 3,189,956</u>	<u>\$ (2,716,077)</u>	<u>\$ 8,602,413</u>
<u>Business-type activities</u>				
Furniture and equipment	\$ 98,933	\$ -	\$ -	\$ 98,933
Less accumulated depreciation	<u>79,890</u>	<u>2,246</u>	<u>-</u>	<u>82,136</u>
Business type activities capital assets, net	<u>\$ 19,043</u>	<u>\$ (2,246)</u>	<u>\$ -</u>	<u>\$ 16,797</u>

Depreciation expense was charged to the following functions:

**Governmental activities**

Instruction	
Regular	\$ 6,334
Special	5,978
Other	13,281
Support services	
Student	1,133
Instructional staff	113,482
Administration	3,060
Operation and maintenance of plant	9,338
Transportation	<u>80,963</u>
	233,569
Unallocated depreciation	<u>245,701</u>
Total governmental activities depreciation expense	<u>\$479,270</u>

**Business type activities**

Food services	<u>\$ 2,246</u>
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## Note 6. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2011 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
Governmental activities					
General obligation bonds	\$ 1,615,000	\$ -	\$(165,000)	\$1,450,000	\$ 100,000
Revenue bonds	3,560,000	-	(100,000)	3,460,000	100,000
Capital loan notes	305,000	-	(150,000)	155,000	155,000
Compensated absences	60,220	23,527	(18,565)	65,182	-
Termination benefits	187,496	6,173	(67,006)	126,663	57,120
Net OPEB liability	204,677	205,316	-	409,993	-
Totals	<u>\$ 5,932,393</u>	<u>\$235,016</u>	<u>\$(500,571)</u>	<u>\$5,666,838</u>	<u>\$ 412,120</u>

Interest costs incurred and charged to expense on all long-term debt was \$254,117 for the year ended June 30, 2011. During the year ended June 30, 2011, the District made principal payments on total long-term debt of \$500,571.

### Revenue Bonds

Details of the District's June 30, 2011 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Bond issue of June 1, 2009		
		Interest	Principal	Total
2012	4.25%	\$ 170,198	\$ 100,000	\$ 270,198
2013	4.25%	165,947	140,000	305,947
2014	4.25%	159,998	145,000	304,998
2015	4.25%	153,835	150,000	303,835
2016	4.25%	147,460	155,000	302,460
2017-2021	4.25-5.0%	631,187	875,000	1,506,187
2022-2026	5.1-5.4%	396,172	1,100,000	1,496,172
2027-2029	5.3-5.45%	88,166	795,000	883,166
Totals		<u>\$1,912,963</u>	<u>\$3,460,000</u>	<u>\$5,372,963</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$3,560,000 of bonds issued in June 2010. The bonds were issued to finance remodeling projects at the JH/HS building and elementary. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2029. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require approximately 75% of the statewide sales and services tax revenues. The

total principal and interest remaining to be paid on the bonds is \$5,372,963. For the current year, \$100,000 of principal and \$174,447 of interest was paid on the bonds and statewide sales, services and use tax revenues were \$376,884.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- a) \$305,947 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- b) All proceeds from the statewide sales and services tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

The District complied with all the revenue bond provisions during the year ended June 30, 2011.

#### General Obligation Bonds

Details of the District's June 30, 2011 general obligation bonded indebtedness are as follows:

Year Ending	Bond issue of November 1, 2005				Bond issue of May 1, 1998			
	Interest Rates	Interest	Principal	Total	Interest Rates	Interest	Principal	Total
June 30,								
2012	3.75%	\$ 54,102	\$ 45,000	\$ 99,102	4.75%	\$ 4,750	\$ 100,000	\$ 104,750
2013	3.80%	52,415	195,000	247,415	-	-	-	-
2014	3.90%	45,005	205,000	250,005	-	-	-	-
2015	4.00%	37,010	215,000	252,010	-	-	-	-
2016	4.10%	28,410	220,000	248,410	-	-	-	-
2017-2018	4.1-4.15%	29,350	470,000	499,350	-	-	-	-
Totals		<u>\$ 246,292</u>	<u>\$ 1,350,000</u>	<u>\$ 1,596,292</u>		<u>\$ 4,750</u>	<u>\$ 100,000</u>	<u>\$ 104,750</u>

Year Ending	Totals		
	Interest	Principal	Total
June 30,			
2012	\$ 58,852	\$ 145,000	\$ 203,852
2013	52,415	195,000	247,415
2014	45,005	205,000	250,005
2015	37,010	215,000	252,010
2016	28,410	220,000	248,410
2017-2018	29,350	470,000	499,350
Totals	<u>\$ 251,042</u>	<u>\$ 1,450,000</u>	<u>\$ 1,701,042</u>

## Capital Loan Notes

Details of the District's June 30, 2011 capital loan notes are as follows:

Year Ending	Interest				
<u>June 30,</u>	<u>Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2012	4.65%	\$ 155,000	\$ 7,440	\$162,440	

## Compensated Absences

Certain District employees accumulate vacation hours for subsequent use or for payment upon termination, retirement, or death. The District's maximum liability for accumulated compensated absences was \$65,182 at June 30, 2011. No individuals had requested payment for unused vacation hours as of June 30, 2011.

## Termination Benefits

Certified District employees who have 10 years of continuous service at Highland Community School District and are age 55 or older are eligible for early retirement pay. The early retirement incentive for each eligible certified employee approved by the Board shall be the cost to the District for providing continuing coverage under the District's group insurance plan until the certified employee becomes eligible for Medicare. The coverage shall constitute the employee's single health and dental coverage applicable at the time of separation. The certified employee must meet the requirements of the insurer to continue coverage under this plan.

The Board has complete discretion to offer or not offer an early retirement plan for certified employees on an annual basis. The Board may discontinue the District's early retirement plan at any time.

The employee must notify the Board by March fifteenth to receive the early retirement benefits. At June 30, 2011, the maximum accumulated retirement benefits of the District was \$126,663 and nine individuals had requested early retirement and were receiving the benefit. Early retirement expenditures for the year ended June 30, 2011 totaled \$67,006.

## **Note 7. Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA, 50306-9117.

Plan members were required to contribute 4.5%, 4.30% and 4.10 % of their annual covered salary and the District was required to contribute 6.95%, 6.65% and 6.35% of annual covered payroll for the years ended June 30, 2011, 2010 and 2009 respectively. Contribution

requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$289,577, \$289,373 and \$254,546, respectively, equal to the required contributions for each year.

**Note 8. Other Postemployment Benefits (OPEB)**

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 121 active, of which 33 were excluded from the valuation, and ten retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of the plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 275,892
Interest on net OPEB obligation	5,117
Adjustment to annual required contribution	<u>(22,603)</u>
Annual OPEB cost	258,406
Contributions made	<u>(53,090)</u>
Increase in net OPEB obligation	205,316
Net OPEB obligation beginning of year	<u>204,677</u>
Net OPEB obligation end of year	<u>\$ 409,993</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2011, the District contributed \$53,090 to the medical plan. Plan members eligible for benefits contributed nothing of the premium costs for the OPEB obligation.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 254,377	19.5%	\$ 204,677
2011	275,892	20.5%	\$ 409,993

Funded Status and Funding Progress – As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2011, the actuarial accrued liability was \$1,583,071, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,583,071. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$4.2 million and the ratio of UAAL to covered payroll was 37.5%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%. The ultimate medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

#### **Note 9. Risk Management**

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### **Note 10. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$278,007 for the year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

#### **Note 11. Deficit Balances**

The District had unreserved, undesignated fund deficits in the General Fund and Enterprise Fund-Preschool Fund of \$738,134 and \$4,343 at June 30, 2011.

#### **Note 12. Contingencies**

Grant Funding - The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2011, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

### Note 13. Related Party Transactions

The District had business transactions between the District and District officials totaling \$795 during the year ended June 30, 2011.

### Note 14. Categorical Funding

The District's restricted fund balance for categorical funding at June 30, 2011 is comprised of the following programs:

#### Program

Four-year-old preschool state aid	\$ 49,445
Beginning teacher mentoring and induction program	323
Teacher salary supplement	11,292
Statewide voluntary preschool	35,930
Educator quality, professional development for model core curriculum	29,071
Educator quality, professional development	<u>11,539</u>
	<u>\$137,600</u>

### Note 15. Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	<u>Capital Projects</u>	<u>Special Revenue</u>
	Physical	Physical
	Plant and	Plant and
	Equipment	Equipment
	<u>Levy</u>	<u>Levy</u>
Balances June 30, 2010, as previously reported	\$ -	\$ 28,342
Change in fund type classification per implementation of GASB Statement No. 54	<u>28,342</u>	<u>(28,342)</u>
Balances July 1, 2010, as restated	<u>\$ 28,342</u>	<u>\$ -</u>

## Note 16. New Governmental Accounting Standards Board (GASB) Statements

During the year ended June 30, 2011, the District implemented the following GASB statements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement improves the usefulness of information provided to financial report users about fund balances by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. Fund balance information is among the most widely and frequently used information in state and local government financial reports. The GASB developed this standard to address the diversity of practice and the resulting lack of consistency that had evolved in fund balance reporting. To reduce confusion, the new standard establishes a hierarchy of fund balance classification based primarily on the extent to which a government is bound to observe spending constraints. The District reclassified the fund balances for all governmental funds as a result of the implementation of this Statement.
- GASB Statement No. 59, *Financial Instruments Omnibus*. This Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investments pools. Specifically, this Statement provides financial reporting guidance by emphasizing the applicability of SEC requirements to certain external investments pool, addressing the applicability of GASB 53, *Accounting and Financial Reporting for Derivative Instruments*, and applying the reporting provisions for interest-earning investment contracts of GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*.

As of June 30, 2011, the GASB had issued several Statements not yet implemented by the District. The Statements which might impact the District are as follows:

- GASB Statement No. 57 OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, an amendment of GASB Statement No. 43 and No. 45, issued January 2010, will be effective for the District beginning with its year ending June 30, 2012. This Statement addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans.
- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued November 2010, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to improve the financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. Specifically, this Statement improves financial reporting by establishing recognition, measurement, and disclosure requirements SCAs for both transferors and government operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial

statements. This Statement also improves the decision usefulness of financial reporting by requiring that specific relevant disclosures be made by transferors and governmental operators about SCAs.

- GASB Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34, issued November 2010, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting for a governmental financial reporting entity by improving guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. The amendments to the criteria for including component units allow users of financial statement to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. The amendments to the criteria for blending also improve the focus of a financial reporting entity on the primary government by ensuring that the primary government includes only those component units that are so intertwined with the primary government that they are essentially the same as the primary government, and by clarifying which component units have that characteristic.
- GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, issued January 2011, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. This Statement incorporates into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncement issued before November 30, 1989: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. By incorporating and maintaining this guidance in a single source, the GASB believes that GASB 62 reduces the complexity of locating and using authoritative literature needed to prepare state and local government financial reports.
- GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, issued July 2011, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statement in the future. This Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement also amends certain provisions of Statement No. 34, Basic Financial Statements

– and Management’s Discussion and Analysis – for State and Local Governments, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets.

- GASB Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53), issued July 2011, will be effective for the District beginning with its year ending June 30, 2012. This Statement clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. Those conditions are: (a) the collectability of swap payments is considered to be probable, (b) the replacement of the counterparty or credit support provider meets the criteria of an assignment or in-substance assignment as described in the Statement, and (c) the counterparty or counterparty credit support provider (and not the government) has committed the act of default or termination event. When all of these conditions exist, the GASB believes that the hedging relationship continues and hedge accounting should continue to be applied.

The District’s management has not yet determined the effect these Statements will have on the District’s financial statements.

## Required Supplementary Information

HIGHLAND COMMUNITY SCHOOL DISTRICT  
 Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual  
 All Governmental Funds and Proprietary Funds  
 Required Supplementary Information  
 For the Year Ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts Original	Final	Final to Actual Variance
Revenues						
Local sources	\$4,326,812	\$205,744	\$ 4,532,556	\$4,416,560	\$4,416,560	\$ 115,996
State sources	3,819,004	2,991	3,821,995	4,123,824	4,123,824	(301,829)
Federal sources	203,422	132,285	335,707	234,066	234,066	101,641
Total revenues	<u>8,349,238</u>	<u>341,020</u>	<u>8,690,258</u>	<u>8,774,450</u>	<u>8,774,450</u>	<u>(84,192)</u>
Expenditures/Expenses						
Current						
Instruction	4,787,833	-	4,787,833	4,977,952	4,977,952	190,119
Support services	2,420,741	11,882	2,432,623	2,327,890	2,500,000	67,377
Non-instructional programs	-	308,291	308,291	287,711	350,000	41,709
Other expenditures	1,539,352	-	1,539,352	1,627,688	1,750,000	210,648
Total expenditures/expenses	<u>8,747,926</u>	<u>320,173</u>	<u>9,068,099</u>	<u>9,221,241</u>	<u>9,577,952</u>	<u>509,853</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(398,688)	20,847	(377,841)	(446,791)	(803,502)	425,661
Net other financing sources (uses)	<u>(11,400)</u>	<u>11,500</u>	<u>100</u>	<u>1,000</u>	<u>1,000</u>	<u>(900)</u>
Net change in fund balance	(410,088)	32,347	(377,741)	(445,791)	(802,502)	424,761
Balance, beginning of year	787,376	(3,658)	783,718	895,626	895,626	(111,908)
Balance, end of year	<u>\$ 377,288</u>	<u>\$ 28,689</u>	<u>\$ 405,977</u>	<u>\$ 449,835</u>	<u>\$ 93,124</u>	<u>\$ 312,853</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Notes to Required Supplementary Information – Budgetary Reporting  
For the Year Ended June 30, 2011

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures / expenses known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeting expenditures by \$356,711.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Schedule of Funding Progress for the  
Retiree Health Plan  
Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	\$ 1,583,071	\$ 1,583,071	\$ -	\$ 4,349,462	36.4%
2011	July 1, 2009	-	1,583,071	1,583,071	-	4,221,168	37.5%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

## Other Supplementary Information

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2011

Schedule 1

	Special Revenue		Capital Projects Physical Plant and Equipment	Debt Service	Total
	Student Activity	Management Levy	Levy		
<b>Assets</b>					
Cash and pooled investments	\$ 80,864	\$ 20,867	\$ 19,228	\$ 18,214	\$139,173
Receivables					
Property tax					
Delinquent	-	2,372	3,452	2,111	7,935
Succeeding year	-	150,000	407,283	204,654	761,937
Total assets	<u>\$ 80,864</u>	<u>\$ 173,239</u>	<u>\$429,963</u>	<u>\$224,979</u>	<u>\$909,045</u>
<b>Liabilities and Fund Balances</b>					
Liabilities					
Accounts payable	\$ 413	\$ -	\$ 21,576	\$ -	\$ 21,989
Deferred revenue					
Succeeding year property tax	-	150,000	407,283	204,654	761,937
Total liabilities	<u>413</u>	<u>150,000</u>	<u>428,859</u>	<u>204,654</u>	<u>783,926</u>
Fund balances					
Restricted for					
Student activities	80,451	-	-	-	80,451
Management levy purposes	-	23,239	-	-	23,239
Physical plant and equipment	-	-	1,104	-	1,104
Debt services	-	-	-	20,325	20,325
Total fund balances	<u>80,451</u>	<u>23,239</u>	<u>1,104</u>	<u>20,325</u>	<u>125,119</u>
Total liabilities and fund balances	<u>\$ 80,864</u>	<u>\$ 173,239</u>	<u>\$429,963</u>	<u>\$224,979</u>	<u>\$909,045</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2011

Schedule 2

	Special Revenue		Capital Projects Physical Plant and Equipment	Debt Service	Total
	Student Activity	Management Levy	Levy		
Revenues					
Local sources					
Local taxes	\$ -	\$182,838	\$376,884	\$230,494	\$ 790,216
Other	132,765	9,951	53,902	68	196,686
State sources	-	91	144	88	323
Total revenues	<u>132,765</u>	<u>192,880</u>	<u>430,930</u>	<u>230,650</u>	<u>987,225</u>
Expenditures					
Current					
Instruction					
Regular	-	30,000	-	-	30,000
Special	-	3,690	-	-	3,690
Other	139,377	-	-	-	139,377
Total instruction	<u>139,377</u>	<u>33,690</u>	<u>-</u>	<u>-</u>	<u>173,067</u>
Support services					
Instructional staff	-	-	49,967	-	49,967
Administration	-	86,747	76,294	-	163,041
Operation and maintenance of plant	-	41,379	12,183	-	53,562
Transportation	-	10,107	3,350	-	13,457
Total support services	<u>-</u>	<u>138,233</u>	<u>141,794</u>	<u>-</u>	<u>280,027</u>
Other expenditures					
Facilities acquisition	-	-	151,659	-	151,659
Long-term debt					
Principal	-	-	-	415,000	415,000
Interest and fiscal charges	-	-	-	258,089	258,089
Total other expenditures	<u>-</u>	<u>-</u>	<u>151,659</u>	<u>673,089</u>	<u>824,748</u>
Total expenditures	<u>139,377</u>	<u>171,923</u>	<u>293,453</u>	<u>673,089</u>	<u>1,277,842</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(6,612)</u>	<u>20,957</u>	<u>137,477</u>	<u>(442,439)</u>	<u>(290,617)</u>
Other financing sources (uses)					
Interfund operating transfers in	-	-	-	440,663	440,663
Interfund operating transfers (out)	-	-	(164,715)	-	(164,715)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(164,715)</u>	<u>440,663</u>	<u>275,948</u>
Net change in fund balances	(6,612)	20,957	(27,238)	(1,776)	(14,669)
Fund balances, beginning of year, as restated	87,063	2,282	28,342	22,101	139,788
Fund balances, end of year	<u>\$ 80,451</u>	<u>\$ 23,239</u>	<u>\$ 1,104</u>	<u>\$ 20,325</u>	<u>\$ 125,119</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Combining Statement of Net Assets  
Nonmajor Enterprise Funds  
June 30, 2011

Schedule 3

	School <u>Nutrition</u>	<u>Preschool</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$28,987	\$ 168	\$29,155
Inventories	7,935	-	7,935
Capital assets, net of accumulated depreciation	16,797	-	16,797
Total assets	<u>53,719</u>	<u>168</u>	<u>53,887</u>
<b>Liabilities</b>			
Accounts payable	519	-	519
Salaries and benefits payable	15,966	4,511	20,477
Deferred revenue	4,202	-	4,202
Total liabilities	<u>20,687</u>	<u>4,511</u>	<u>25,198</u>
<b>Net Assets</b>			
Invested in capital assets	16,797	-	16,797
Unrestricted	16,235	(4,343)	11,892
Total net assets	<u>\$33,032</u>	<u>\$ (4,343)</u>	<u>\$28,689</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets  
Nonmajor Enterprise Funds  
For the Year Ended June 30, 2011

Schedule 4

	School <u>Nutrition</u>	<u>Preschool</u>	<u>Total</u>
Operating revenue			
Local sources			
Charges for service	\$ 180,879	\$ 24,854	\$ 205,733
Operating expenses			
Support services			
Administration			
Salaries	8,361	-	8,361
Benefits	1,206	-	1,206
Purchased services	125	-	125
	<u>9,692</u>	<u>-</u>	<u>9,692</u>
Operation and maintenance of plant			
Purchased services	2,190	-	2,190
Total support services	<u>11,882</u>	<u>-</u>	<u>11,882</u>
Non-instructional programs			
Salaries	107,827	23,735	131,562
Benefits	18,330	7,723	26,053
Purchased services	914	-	914
Supplies	147,516	-	147,516
Depreciation	2,246	-	2,246
	<u>276,833</u>	<u>31,458</u>	<u>308,291</u>
Total operating expenses	<u>288,715</u>	<u>31,458</u>	<u>320,173</u>
Operating loss	<u>(107,836)</u>	<u>(6,604)</u>	<u>(114,440)</u>
Non-operating revenue			
Interest income	-	11	11
State sources	2,991	-	2,991
Federal sources	132,285	-	132,285
Total non-operating revenue	<u>135,276</u>	<u>11</u>	<u>135,287</u>
Net income (loss) before transfers	27,440	(6,593)	20,847
Transfers in	11,500	-	11,500
Net income (loss)	38,940	(6,593)	32,347
Net assets, beginning of year	(5,908)	2,250	(3,658)
Net assets, end of year	<u>\$ 33,032</u>	<u>\$ (4,343)</u>	<u>\$ 28,689</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Combining Statement of Cash Flows  
Nonmajor Enterprise Funds  
For the Year Ended June 30, 2011

Schedule 5

	School <u>Nutrition</u>	<u>Preschool</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from sale of services	\$ 181,385	\$24,854	\$ 206,239
Cash payments to employees for services	(137,539)	(31,369)	(168,908)
Cash payments to suppliers for goods and services	(124,862)	-	(124,862)
Net cash used in operating activities	<u>(81,016)</u>	<u>(6,515)</u>	<u>(87,531)</u>
Cash flows from non-capital financing activities			
State grants received	2,991	-	2,991
Federal grants received	100,863	-	100,863
Net cash provided by non-capital financing activities	<u>103,854</u>	<u>-</u>	<u>103,854</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities			
Interest on investments	<u>-</u>	<u>11</u>	<u>11</u>
Net increase (decrease) in cash and cash equivalents	22,838	(6,504)	16,334
Cash and cash equivalents, beginning of year	6,149	6,672	12,821
Cash and cash equivalents, end of year	<u>\$ 28,987</u>	<u>\$ 168</u>	<u>\$ 29,155</u>

**Reconciliation of operating loss to net cash  
used in operating activities**

Operating loss	\$ (107,836)	\$ (6,604)	\$ (114,440)
Adjustments to reconcile operating loss to net cash used in operating activities			
Depreciation	2,246	-	2,246
Commodities used	31,885	-	31,885
(Increase) in inventory	(5,859)	-	(5,859)
Increase in deferred revenue	506	-	506
(Decrease) in accounts payable	(143)	-	(143)
Increase (decrease) in accrued salaries and benefits	(1,815)	89	(1,726)
Net cash used in operating activities	<u>\$ (81,016)</u>	<u>\$ (6,515)</u>	<u>\$ (87,531)</u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2011 the District received \$31,885 of federal commodities.

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
For the Year Ended June 30, 2011

Schedule 6

Account	Balance, Beginning of Year	Revenues	Expenditures	Balance, End of Year
Vocal	\$ (391)	\$ 2,773	\$ 2,371	\$ 11
Instrumental	2,102	1,053	2,550	605
Pop & concessions	793	8,903	8,493	1,203
Student fundraising	6,835	500	3,265	4,070
Sixth grade class	-	125	-	125
Seventh grade class	115	15	-	130
Eighth grade class	175	50	-	225
Freshman class	321	5	170	156
Sophomore class	245	492	213	524
Junior class	1,382	7,509	6,667	2,224
Senior class	1,825	134	879	1,080
Annual	5,534	5,470	8,767	2,237
Cheerleaders	361	784	1,065	80
Drill team	326	3,368	2,545	1,149
National Honor Society	(148)	170	(517)	539
Sr high student council	1,368	896	952	1,312
Jr high student council	1,052	469	402	1,119
Drama club	22	763	112	673
Art club	765	100	115	750
Spanish club	237	-	-	237
Athletics	38,901	85,840	91,811	32,930
Riverside fund	12,528	5,198	4,129	13,597
Ainsworth fund	3,927	3,567	2,223	5,271
Middle school fund	8,387	2,516	956	9,947
High school fund	401	2,065	2,209	257
Totals	<u>\$ 87,063</u>	<u>\$ 132,765</u>	<u>\$ 139,377</u>	<u>\$ 80,451</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds  
For the Last Eight Years

Schedule 7

	Modified Accrual Basis							
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues								
Local sources								
Local tax	\$3,413,337	\$ 3,208,770	\$3,074,108	\$2,958,685	\$2,693,149	\$2,521,084	\$2,284,988	\$1,975,205
Tuition	590,209	603,302	534,280	466,772	395,840	340,475	274,251	231,774
Other	323,266	527,055	355,805	399,915	409,119	314,129	273,500	243,793
Intermediate sources	-	-	-	-	-	12,600	-	-
State sources	3,819,004	3,124,390	3,655,379	3,494,399	3,053,772	2,965,288	2,643,349	2,566,864
Federal sources	203,422	536,662	179,295	144,692	133,911	147,397	125,535	125,143
Total revenues	<u>\$8,349,238</u>	<u>\$ 8,000,179</u>	<u>\$7,798,867</u>	<u>\$7,464,463</u>	<u>\$6,685,791</u>	<u>\$6,300,973</u>	<u>\$5,601,623</u>	<u>\$5,142,779</u>
Expenditures								
Current								
Instruction								
Regular	\$2,665,176	\$ 2,671,903	\$2,862,465	\$2,529,325	\$2,327,498	\$2,340,221	\$2,041,513	\$1,871,992
Special	1,153,555	1,084,270	969,265	851,882	775,085	717,324	646,978	626,402
Other	969,102	927,222	719,521	781,751	707,213	440,947	527,389	332,137
Support services								
Student	132,164	120,763	78,088	73,865	76,196	91,367	84,720	133,943
Instructional staff	320,413	386,363	290,327	393,429	422,532	269,235	238,941	299,640
Administration	916,191	894,878	942,053	760,712	722,347	659,599	582,102	500,669
Operation and maintenance of plant	634,636	604,105	648,824	597,414	523,452	495,074	438,447	367,344
Transportation	417,337	330,270	383,141	250,736	280,656	361,661	175,373	175,000
Non-instructional programs	-	1	-	-	-	-	4,766	3,749
Other expenditures								
Facilities acquisition	588,256	3,275,850	804,363	117,250	229,728	75,898	83,515	1,210,971
Long-term debt								
Principal	415,000	400,000	290,000	280,000	260,000	265,395	266,405	219,477
Interest and other charges	258,089	200,568	108,497	120,692	131,900	198,608	163,902	228,534
AEA flowthrough	278,007	259,507	234,627	222,787	205,846	194,410	175,545	183,551
Total expenditures	<u>\$8,747,926</u>	<u>\$11,155,700</u>	<u>\$8,331,171</u>	<u>\$6,979,843</u>	<u>\$6,662,453</u>	<u>\$6,109,739</u>	<u>\$5,429,596</u>	<u>\$6,153,409</u>

See accompanying Independent Auditor's Report.

# KAY L. CHAPMAN, CPA PC

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Muscatine, Iowa 52761

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Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards

To the Board of Education  
Highland Community School District

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Highland Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated February 29, 2012. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

## Internal Control Over Financial Reporting

In planning and performing my audit, I considered Highland Community School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of Highland Community School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Highland Community School District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, I identified certain deficiencies in internal control over financial reporting I consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies in internal

control described in Part I of the accompanying Schedule of Findings as items A and B to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Highland Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Highland Community School District's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the District's responses, I did not audit Highland Community School District's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Highland Community School District and other parties to whom Highland Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the Highland Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

*Kay L. Chapman, CPA PC*

Kay L. Chapman, CPA PC  
February 29, 2012

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2011

**Part I. Findings Related to the Financial Statements**

**INTERNAL CONTROL DEFICIENCIES**

- A. Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts and disbursements, bank deposits and bank account reconciliations were all handled by the same person.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned - We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

- B. Financial Statement Preparation - Financial statement preparation is the responsibility of the District. At the present time, District personnel do not have the skills necessary to prepare the District's financial statements and related note disclosures in compliance with generally accepted accounting principles (GAAP). This is not an unusual situation for small governmental entities.

Recommendation - The business manager should consider obtaining additional GAAP training through reading relevant accounting literature and/or attending professional education courses. Since GAAP reporting and disclosures change constantly, the business manager should consider taking training annually to stay up-to-date on GAAP reporting and disclosure requirements. The District should also obtain current governmental accounting, reporting and disclosure reference materials and update them as new pronouncements become effective.

Response - We believe that the business manager has sufficient knowledge to perform her daily duties and take responsibility for the annual financial statements and footnote disclosure in compliance with GAAP, as prepared by the auditor. We certainly understand the need for continuing education classes for all of our staff, including the business manager. The business manager has completed the Iowa School Business Management Academy and regularly attends school finance conferences to renew the certification and keep updated on new accounting and GAAP requirements applicable to her job requirements. However, the business manager does not keep current on the

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2011

constantly-changing disclosure requirements necessary to prepare the footnote disclosures required for the annual financial statements, as we have determined that this is outside of her job duties. We believe it is more efficient use of District funds to have the auditor prepare the annual financial statements and footnote disclosures.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

**Part II. Other Findings Related to Required Statutory Reporting:**

1. Certified Budget - Expenditures for the year ended June 30, 2011 did not exceed the amounts budgeted.
2. Questionable Expenditures - I did not note any expenditures that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979, were noted.
3. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
4. Business Transactions - Business transactions between the District and District officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Bev Colbert, business manager part owner of Colbert Trucking	Trucking services	\$795

The transactions with business manager Colbert's business do not appear to represent a conflict of interest since it did not exceed \$2,500 for the fiscal year, as allowed by Chapter 279.7A of the Code of Iowa.

Recommendation - The District should consult legal counsel to determine the disposition of this matter.

Response - We will review the situation.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2011

5. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
8. Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
9. Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
10. Certified Annual Reports - The Certified Annual Report was certified timely to the Department of Education.
11. Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.
12. Statewide Sales, Services and Use Tax - No instances of noncompliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2011

Beginning balance		\$ 1,215,038
Revenues		
Statewide sales and services tax revenue	\$ 443,325	
Other local revenues	<u>61,678</u>	505,003
Expenditures/transfers out		
School infrastructure		
School infrastructure construction	\$ 298,658	
Equipment	<u>292,732</u>	
Debt service for school infrastructure		
Revenue debt	<u>275,948</u>	<u>867,338</u>
Ending balance		<u>\$ 852,703</u>

For the year ended June 30, 2011, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

13. Financial Condition - The District had unreserved, undesignated deficits in the General Fund and Enterprise-Preschool Fund of \$738,134 and \$4,343 at June 30, 2011.

Recommendation - The District should continue to monitor these accounts and investigate alternatives to eliminate these deficits.

Response - We will review the situation and implement changes, as needed.

Conclusion - Response accepted.

HIGHLAND COMMUNITY SCHOOL DISTRICT

Audit Staff

June 30, 2011

This audit was performed by

Kay Chapman, CPA

Tammy Calvert, staff accountant